

Message Text

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TO AMEMBASSY PARIS IMMEDIATE

C O N F I D E N T I A L STATE 296827

LIMDIS FOR DEPUTY ASSIST SEC FISHLOW (WITH CIEC DELEGATION)

FOLLOWING REPEAT LIMA 10309 ACTION SECSTATE DTD 12 DEC

QTE

C O N F I D E N T I A L LIMA 10309

LIMDIS

FOR ARA - MAR. FISHLOW; SP - LUIGI EINAUDI; EB - RICHARD SMITH;

TREASURY - FRANK MARESCA; L/ARA - DAVID GANTZ

EO 11652: GDS

TAGS: ENRG, EINV, EIND, PE

SUBJ: GOP CONCERN OVER OCCIDENTAL PACKAGE

REF: A. LIMA 10088; B. LIMA 9780

1. AS NOTED SEPTEL, FOREIGN MINISTER DE LA FLOR AND COMMERCE
MINISTER ARIAS RAISED WITH FISHLOW THE GOP'S CONCERN OVER
STATUS OF OCCIDENTAL'S FINANCING PACKAGE. DE LA FLOR SAID
THAT OXY WANTS GOP TO GUARANTEE CERTAIN PORTIONS OF FOREIGN
FINANCING FOR THE CONSTRUCTION OF THE SPUR LINE AND DEVELOP-
MENT OF OCCIDENTAL'S FIELDS. FONMIN EMPHASIZED THAT THE
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GOP WAS RESISTING GIVING SUCH A GUARANTEE AND THAT IF OXY

REQUIRED SUCH A GUARANTEE THE PERUVIANS MIGHT BUILD THE LINE THEMSELVES. HE SAID THAT IF THIS WERE THE CASE, PERU WOULD BE INTERESTED IN GOING TO WORLD BANK FOR POSSIBLE FINANCING. DE LA FLOR MENTIONED ALSO THAT OXY HAS THE OPTION TO FULLY FINANCE AND BUILD THE SPUR LINE ON ITS OWN WITHOUT GOVERNMENT GUARANTEES.

2. DAVID MARTIN, PRESIDENT OF OCCIDENTAL PERU, WHO HAS BEEN NEGOTIATING PACKAGE OF AGREEMENTS WITH PERUVIANS DURING THE LAST MONTHS, CALLED EMBASSY OFFICER MORNING OF DECEMBER 12 TO DISCUSS STATUS OF OXY NEGOTIATIONS. MARTIN EXPLAINED THA THERE ARE IN FACT FOUR AGREEMENTS IN PACKAGE HE HAS NEGOTIATED, TWO MAJOR AND TWO MINOR. THE MAJOR AGREEMENTS ARE AGREEMENT ON THRU-PUT TARIFFS, THE LANGUAGE OF WHICH HAS BEEN FINALIZED BUT WHICH HAS NOT BEEN SIGNED, AND THE SECOND A GUARANTEE BY COFIDE, THE STATE DEVELOPMENT BANK, OF OCCIDENTAL'S FINANCING IN THE AMOUNT OF \$120 MILLION FOR DELIVERY OF FOREIGN GOODS AND SERVICES FOR THE CONSTRUCTION OF THE SPUR LINE AND WELL DEVELOPMENT. THE TWO MINOR AGREEMENTS ARE SALES AND RE-FINING AGREEMENTS.

3. MARTIN EXPLAINED THAT OCCIDENTAL HAD SPENT \$105 MILLION IN PERU AND WOULD PLAN TO SPEND \$215 MILLION ADDITIONALLY IF ITS PACKAGE IS ACCEPTED BY THE GOVERNMENT. OUT OF THE \$215 MILLION, \$140-150 MILLION WOULD BE FINANCED BY FOREIGN CREDITS. THE REMAINDER INVOLVES DRILLING, WHICH IS NOT NORMALLY FINANCED THROUGH CREDIT MECHANISMS.

4. RESPONDING TO A QUESTION, MARTIN SAID THAT COFIDE HAS BEEN GIVING FAVORABLE CONSIDERATION TO THE GUARANTEE BUT THAT THE GOVERNMENT AS A WHOLE HAS NOT YET APPROVED IT. HE ALSO SAID THAT IF THE GOP WERE TO TURN DOWN THE GUARANTEE ARRANGEMENTS, THE PACKAGE OF AGREEMENTS WOULD FALL APART AND OXY WOULD HAVE TO LEAVE. MARTIN ALSO EMPHASIEZED THAT, IN HIS OPINION, AGREEMENT WAS FAIR ON BOTH SIDES AND THAT IT WILL BE ACCEPTED SHORTLY BY GOP. IT WOULD BE A SIGN OF CONTINUING CONSTRUCTIVE RELATIONS WITH FOREIGN CORPORATIONS AND GENERALLY ASSIST THE GOP'S DETERIORATING BALANCE OF PAYMENTS SITUATION.
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5. COMMENT: DE LA FLOR'S AND ARIAS' EXPRESSIONS OF CONCERN ARE UNDOUBTEDLY GENUINE IN THE GOP FINDS IT ANOMOLOUS THAT IT SHOULD BE ASKED BY A FOREIGN COMPANY THAT THE PERUVIAN STATE GUARANTEE FINANCING FOR THE COMPANY'S OPERATIONS. IN ADDITION, THE PERUVIAN GOVERNMENT HAS BEEN DISAPPOINTED BECAUSE OXY EARLIER ON HAD STATED THAT FINANCING WOULD BE NO PROBLEM, BUT NOW HAS TURNED TO

THE STATE FOR GUARANTEES OF SUCH FINANCING. THUS, PERU-
VIANS FIND THEMSELVES IN A DILEMMA, IF OXY IS IN FACT PRE-
PARED TO WITHDRAW SHOULD NO GUARANTEE BE APPROVED. ON
THE ONE HAND, PERU VERY BADLY NEEDS OXY'S OIL IN ORDER TO
MAKE THE TRANS-ANDEAN PIPELINE AT LEAST marginally FEASIBLE
AS WELL AS TO AVOID ANOTHER POTENTIAL PUBLIC CONFRONTA-
TION WITH A TNE. ON THE OTHER HAND, THE GOP MAY WELL
RESIST PRESSURE TO PROVIDE THE GUARANTEE. FURTHER, GIVEN
BALANCE OF PAYMENTS PROSPECTS, PERU WOULD UNDOUBTEDLY
PREFER TO HAVE OCCIDENTAL FINANCE THE PACKAGE, RATHER
THAN DO SO ITSELF. WE WILL BE DISCUSSING OXY'S PACKAGE
WITH MR. MARTIN SHORTLY AND WILL REPORT ACCORDINGLY.
DEAN UNQTE INGERSOLL

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